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Summary of the economic and social survey of Asia and the Pacific, 2003

Summary

Although the global economy lost momentum in 2002 in the face of weak investment activity in the private sector, compounded by mounting geopolitical uncertainties, the region of the Economic and Social Commission for Asia and the Pacific (ESCAP) remained largely unaffected. Developing economies of the region exceeded 2001 gross domestic product (GDP) growth by nearly 2 percentage points in 2002. Developed economies of the region also improved upon their 2001 performance in 2002, although Japan remained in recession. Over the region as a whole, inflation declined further in 2002 from an already low level in 2001. Higher GDP growth in the region was achieved partly through easier domestic monetary and fiscal policies and partly through higher intraregional trade flows. For 2003, prospects are uncertain, principally as a result of the threat of military action in Iraq and the situation in Korea. Assuming that large-scale military action can be avoided in Iraq, the ESCAP region should be able to sustain the current growth momentum in 2003.

In the face of uncertainty it is nevertheless vital to stress the importance of long-term social issues such as education and health. The last two decades or more underline the positive impact of education and health on the economic development of countries and the well-being of societies and individuals. Moreover, the provision of education and health services are key elements for reducing poverty in developing countries. While the public sector remains the major provider of education and health services, additional resources need to be raised to expand the provision of such services, using a number of channels. Those include the private sector, communities, non-governmental organizations, foreign bilateral donors and multilateral organizations. An integrated approach to the provision of education and health services is recommended, and in order to achieve better results in their delivery, more efficient utilization of resources is also important.

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Along with the economic and social challenges facing the region, Governments also have to deal with environmental problems and the environment-poverty nexus. While rapid economic growth is seen as a central element in achieving poverty reduction, experience shows that growth is often accompanied by environmental deterioration that hurts the poor. Environmental policies have thus sought partly to attenuate the adverse effects of growth on the environment and partly to directly address the problems of the poor in ways that simultaneously have a positive impact on the environment. However, despite an array of policies and programmes used to attain these twin objectives, the track record thus far is not satisfactory. Greater effort is needed in building environmental awareness, decentralizing responsibilities and improving coordination between agents, policy makers and institutions to improve the effectiveness of environmental policies.

The present document is based on the *Economic and Social Survey of Asia and the Pacific 2003*.

Contents

		Page
I.	Implications of recent economic and social developments	3
II.	Policy issues and challenges	9
III.	The role of public expenditure in the provision of education and health services	11
IV.	Environment-poverty nexus revisited: linkages and policy options	14

I. Implications of recent economic and social developments

1. In the annual *Economic and Social Survey of Asia and the Pacific*, the secretariat of the Economic and Social Commission for Asia and the Pacific analyses recent economic and social developments in the region. It also seeks to focus attention on the policy implications those developments are likely to have for Governments in the region. The 2003 *Survey* looks at short-term trends in the global economy in 2002, prospects for 2003 amid growing geopolitical tensions and uncertainties and the challenges that lie ahead for the ESCAP region. The *Survey* also considers longer-term social issues of relevance to the region, such as education and health services, and examines the policy options available to Governments for expanding the provision of such services. Finally, it looks at the linkages between environmental issues and poverty and makes policy recommendations in that regard.

2. In March 2002, the secretariat noted discernible signs of recovery in the global and regional economies following the sharp slowdown in 2001. Although the global economic recovery weakened in 2002 after an encouraging first quarter, the developing economies of the ESCAP region were able to maintain a relatively strong momentum of growth. GDP growth attained by this group of economies in 2001 was exceeded by nearly 2 percentage points in 2002. Indeed, at 5.1 per cent, it was the fastest-growing group of economies in the world in 2002. All subregions improved their growth performance in 2002 relative to 2001. The most impressive improvements in 2002 were recorded by East and North-East Asia and South-East Asia (see table).

3. The improved growth performance was based partly on the stimulus provided by easier macroeconomic policies, principally lower interest rates, and partly on the growth in intraregional trade. The easing of macroeconomic policies was facilitated by the low inflationary environment; the collective rate of inflation in developing economies of the ESCAP region declined from 3.5 per cent in 2001 to 2.1 per cent in 2002. International trade by developing countries of the region exceeded world trade growth in 2002 in value terms (plus 2.1 per cent up to August 2002 on a year-on-year basis, in contrast to minus 2.4 per cent on the same basis for the world as a whole). However, the increase was offset to some extent by price declines in manufactured goods so that, notwithstanding the improvement in some commodity prices, on an overall basis developing economies of the ESCAP region suffered terms-of-trade losses during the year.

4. In the latter part of 2002, geopolitical uncertainties emanating from the possibility of military conflict in Iraq, the consequences of the terrorist attack in Bali and the situation in the Democratic People's Republic of Korea served to further undermine already low corporate confidence across the globe. Although GDP growth in the region remained largely unaffected by those developments, the uncertainty they generated was discernible in most of the stock markets of the region. By and large, stock markets tended to weaken in 2002, with minor upward rallies. There were few signs of a revival in corporate investment spending. Furthermore, as oil prices had risen by some 50 per cent by the end of December 2002 on a year-on-year basis and there was little evidence of durable growth in the United States of America, Japan and the European Union (EU), which together account for more than 50 per cent of the exports from the region, the outlook for regional growth in 2003 became less favourable.

Selected economies of the ESCAP region: rates of economic growth and inflation, 2001-2005

(Percentage)

	Real GDP					*Inflation*[a]				
	2001	*2002*[b]	*2003*[c]	*2004*[c]	*2005*[c]	*2001*	*2002*[b]	*2003*[c]	*2004*[c]	*2005*[c]
Developing economies of the ESCAP region[d]	3.2	5.1	5.4	5.7	5.5	3.5	2.1	2.5	2.3	2.4
South and South-West Asia[e]	4.6	4.5	5.8	6.2	6.5	6.5	5.9	5.4	4.9	4.2
Bangladesh	5.3	4.8	5.2	5.7	..	1.6	2.4	3.0	3.0	..
India	5.6	4.4	6.0	6.5	6.8	4.3	3.5	3.5	3.0	3.0
Iran (Islamic Republic of)	4.8	6.5	6.7	6.8	..	11.4	15.3	14.0	13.0	..
Nepal	4.9	0.8	2.5	3.5	..	2.4	2.9	4.5	..	..
Pakistan	2.5	3.6	4.5	5.0	5.5	4.4	3.5	4.0	4.0	4.0
Sri Lanka	-1.4	3.0	5.3	5.9	6.3	14.2	9.5	6.7	6.6	6.4
Turkey	-7.4	6.0	4.2	3.7	4.2	54.4	45.2	30.9	25.5	28.1
South-East Asia	2.2	4.0	4.7	4.7	4.5	5.9	3.7	3.9	3.8	3.9
Cambodia	5.5	4.5	6.4	6.0	6.5	-0.5	3.0	3.5	3.3	3.0
Indonesia	3.3	3.2	4.1	4.4	4.3	11.5	10.5	9.0	8.6	8.8
Lao People's Democratic Republic	5.7	5.8	5.9	6.3	..	7.8	10.6	5.5[f]	5.0[f]	..
Malaysia	0.4	4.2	6.3	5.4	5.3	1.4	1.8	2.0	2.2	1.7
Myanmar	10.5	5.5	5.8	5.4	..	21.1	51.3	38.2	24.9	..
Philippines	3.2	4.6	4.6	4.9	5.5	6.1	3.1	4.0	3.5	3.1
Singapore	-2.4	2.2	4.2	4.9	5.0	1.0	-0.4	1.2	1.4	1.8
Thailand	1.8	4.9	4.5	4.4	3.4	1.7	0.7	1.5	1.3	1.9
Viet Nam	6.8	7.0	7.5	7.5	7.5	-0.4	3.9	5.3	6.3	5.8
East and North-East Asia	3.3	5.7	5.6	6.0	5.7	1.4	0.3	1.0	1.0	1.3
China	7.3	7.9	7.7	7.8	7.7	0.7	-0.8	-0.5	-0.3	0.0
China, Hong Kong SAR	0.6	1.7	2.5	4.5	3.9	-1.6	-3.0	-1.5	-0.5	0.3
Mongolia	1.1	3.9	5.0	..	..	8.0	5.0	5.0	..	..
Republic of Korea	3.0	6.1	5.3	5.4	4.3	4.1	2.7	3.3	2.4	2.6
Taiwan Province of China	-2.1	3.2	3.6	4.4	4.9	0.0	0.0	1.3	1.9	2.1
Pacific island economies	-0.8	1.1	3.2	3.0	2.4	7.1	8.5	9.0	7.1	7.1
Cook Islands	-3.3	1.4	2.4	..	..	8.7	4.0	2.5	..	..
Fiji	4.3	4.4	5.7	3.6	3.7	4.2	2.5	3.0	3.0	3.0
Papua New Guinea	-3.4	-0.5	1.8	2.7	1.6	9.3	12.0	13.2	10.0	10.0
Samoa	6.5	1.1	6.0	5.0	5.0	4.0	6.0	3.0	2.0	3.0
Solomon Islands	-13.0	3.0	2.5	2.0	2.0	1.8	11.0	9.0	5.0	5.0
Tonga	3.0	3.0	4.5	3.0	3.0	6.3	4.0	3.0	3.0	3.0
Vanuatu	-0.5	-0.4	1.3	2.2	2.6	3.2	2.5	2.5	2.5	2.5

	Real GDP					Inflation[a]				
	2001	2002[b]	2003[c]	2004[c]	2005[c]	2001	2002[b]	2003[c]	2004[c]	2005[c]
Developed economies of the ESCAP region	-0.1	-0.3	0.5	0.9	1.3	-0.4	-0.8	-0.5	-.05	-0.2
Australia	2.7	3.3	3.2	3.6	3.8	4.4	2.5	2.7	2.6	2.5
Japan	-0.3	-0.6	0.3	0.7	1.1	-0.7	-1.1	-0.7	-0.7	-0.4
New Zealand	2.5	3.8	2.6	2.8	3.1	2.7	2.6	1.9	1.8	2.0
Memo										
Kazakhstan	13.5	9.5	6.7	6.7	8.5	8.5	5.9	6.2	6.7	6.8
Russian Federation	5.0	3.9	4.0	4.1	4.5	21.6	15.1	13.6	11.9	10.0
Uzbekistan	4.5	3.0	3.5	4.0	..	27.2	26.0	26.5	25.0	..

Sources: ESCAP, based on International Monetary Fund, *International Financial Statistics*, vol. LV, No. 12 (December, 2002); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2002*, vol. XXXIII (Asian Development Bank, 2002) and *Asian Development Outlook 2002 Update* (Asian Development Bank, 2002); Economist Intelligence Unit, *Country Reports* and *Country Forecasts* (London, 2002 and 2003), various issues; web site of the Interstate Statistical Committee of the Commonwealth of Independent States, www.cisstat.com; and national resources.

[a] Changes in the consumer price index.

[b] Estimate.

[c] Forecast/target.

[d] Based on data for 28 developing economies representing about 95 per cent of the population of the region (excluding the Central Asian republics); GDP figures at market prices in United States dollars in 1995 have been used as weights to calculate the regional and subregional growth rates.

[e] The estimates and forecasts for countries relate to fiscal years defined as follows: fiscal year 2002/03 = 2002 for India and the Islamic Republic of Iran; and fiscal year 2001/02 = 2002 for Bangladesh, Nepal and Pakistan.

[f] End-year figures.

5. By early February 2003, the region was contending with an array of uncertainties that rendered any assessment of the outlook for 2003 problematic in the extreme. Externally, until the situation relating to Iraq became clearer, demand for the region's exports in the developed economies could be much weaker than forecast even a few months earlier as corporations delayed new investment expenditures. Further, the world financial markets (equities, bonds and foreign exchange) were likely to be affected by low and fragile investor confidence. This was likely to manifest itself primarily in heightened risk aversion and exaggerated volatility in asset prices and trading volumes. A probable consequence of this could be greater instability in exchange rates, revolving around a weaker United States dollar, and funds flowing into safe-haven investments, such as precious metals, with deleterious effects even on trade-related cross-border financial transactions. Internally, a prolonged period of uncertainty would clearly have an adverse impact on business and consumer confidence, while the possibility of military conflict in Iraq could deflect Governments in the region from focusing on development issues and implementing their reform agendas owing to a narrower concern with security matters in the short term.

6. If other things remain the same, however, or if the uncertainties mentioned above resolve themselves quickly and trade and financial flows are not disrupted for a prolonged period, the underlying strength of the economies in the region suggests that the developing economies of the region should be able to maintain their current growth momentum in 2003 or even enjoy a modest acceleration. However, in order

to achieve this, major policy issues and challenges have to be confronted by the Governments of the region. It should be stressed here that the balance of probabilities at the time of writing remains significantly weighted on the downside until the geopolitical situation and related questions are resolved. In the following paragraphs the recent performance and prospects for each subregion and the common policy issues and challenges facing the ESCAP region as a whole are discussed.

7. In the least developed countries (LDCs), GDP growth generally slowed in 2002. This was primarily caused by a slowdown in export growth and not, as in the past, by any adverse domestic developments. LDC exports are mainly destined for developed country markets and are still concentrated in a relatively narrow range of items, although newer exports such as garments have made a major contribution to export and GDP growth in Bangladesh in recent years. Tourism was also adversely affected as concerns about security kept tourists away from several of the LDCs, especially in such countries as Nepal, where the security situation worsened. However, inflationary pressures were minimal with the exception of Myanmar. For the future, taking the LDCs as a whole, much depends upon the recovery of global growth in 2003 and more particularly upon growth in the developed countries.

8. As in the case of the LDCs, despite improvements in GDP growth in the ESCAP region overall, the Pacific island economies did not show a significant improvement in 2002. However, taking those economies as a whole, most of which have a narrow production and low population base, GDP stopped contracting and positive growth was attained in all the economies with the exception of Papua New Guinea and Vanuatu. The most visible turnaround occurred in Solomon Islands, where GDP grew in 2002 after experiencing a contraction of 13 per cent in 2001. The poor GDP performance in the Pacific island economies contributed to problems in macroeconomic management. As a result, the inflation rate went up in all the main economies except Fiji, Tonga and Vanuatu. Despite the fact that these countries are away from the areas of tension, tourism displayed a mixed trend; it recovered in Fiji but not in other tourism-dependent economies. For 2003, overall prospects are for GDP growth to exceed the performance in 2002. The Pacific island economies are substantially influenced by developments in Australia and New Zealand, which are expected to achieve GDP growth in 2003 at, or close to, that achieved in 2002.

9. The economies of Central Asia were little affected by the global downturn in 2001 and the pace of GDP growth remained broadly stable in 2002. Growing investor and consumer confidence led to growth in the subregion, attracting enhanced external capital to resource-rich economies such as that of Kazakhstan and facilitating greater macroeconomic stability, particularly exchange rate stability, as production increased and inflation declined in virtually all the economies of the subregion. As compared with the overall trend, GDP growth tended to ease somewhat in 2002 relative to 2001 in the three largest economies, but still maintained a respectable pace. Central Asia remains heavily dependent upon the Russian Federation, and strong growth in that country since the 1998 financial crisis has led to higher trade flows within the subregion on a more sustainable basis. The Russian Federation has been recognized as a market economy, and its entry into the World Trade Organization should boost not only its own development but also that of the Central Asian economies, by locking them more firmly into the international economy. Prospects for 2003 are, however, subject to the uncertainty prevailing in

the global economy at the present time. In particular, much will depend on the course of energy prices over the coming months.

10. In South and South-West Asia, GDP growth accelerated in 2002 as compared with 2001. This was mainly on account of the recovery of Sri Lanka and Turkey from negative growth in 2001 and higher growth in Pakistan and the Islamic Republic of Iran. India, the largest economy in this subregion, saw a marginal decline in its GDP growth rate in 2002 relative to 2001; unfavourable weather affected agricultural production and was essentially responsible for the small overall decline in the GDP growth rate. Inflation in the subregion remained largely unchanged; it increased in the Islamic Republic of Iran but declined modestly from a very high level in Turkey and in Sri Lanka. With the exception of India and Turkey, export growth remained subdued. However, with improved inflows of remittances and foreign capital, the foreign exchange reserve position improved significantly in nearly all countries of the subregion. In the case of India and Pakistan, higher inflows of foreign resources led to balance-of-payments current account surpluses. In 2003, the overall GDP growth rate is expected to rise, especially in India, Pakistan and Sri Lanka. However, uncertainties remain: they are primarily external and could affect export growth adversely if growth in the global economy remains tentative or if prolonged military hostilities take place in Iraq. While the economies of the subregion are primarily driven by domestic demand, net exports make a significant contribution to GDP performance at the margin. In addition, other than the Islamic Republic of Iran, the subregion is a heavy importer of energy, and higher energy prices would be a negative development for both growth and inflation in the subregion.

11. The rate of GDP growth improved in South-East Asia, rising from 2.2 per cent in 2001 to 4 per cent in 2002. Growth was strong in Malaysia and Thailand, driven, for the most part, by buoyant consumption aided by an increase in electronics and electrical goods exports. Higher commodity prices were another positive feature in the subregion. These factors also applied to Viet Nam, where GDP growth remained buoyant in 2002. Growth was not as strong in the Philippines and Indonesia, where the incidence of terrorist attacks tended to dampen business investment expenditure. However, the attacks had a minimal impact on tourism in the subregion, which accounts for 4 to 5 per cent of GDP in South-East Asia generally. Slower growth in the global economy in the second half of 2002 caused export growth to taper off in these economies, and this phenomenon was responsible for the modest increase in output in Singapore in 2002 following a contraction in 2001. The outlook for 2003 is clouded by uncertainty on the external front. Even though exports to China increased rapidly in 2002 and should continue to grow in 2003, this may not be sufficient to offset the lack of robust growth in the United States, Japan and the European Union. Domestically, strong consumption growth facilitated by easier macroeconomic policies is likely to be sustained but could come up against rising personal debt levels and the need to begin fiscal consolidation as a result of the rising public debt in several economies. Subject to the above caveats and to the uncertainties in the international situation, the subregion should enjoy stronger growth in 2003.

12. East and North-East Asia were the best performing subregions in 2002, led by strong growth in China and the Republic of Korea. Mongolia, which has the smallest economy in the subregion, also improved its GDP growth rate in 2002. In China, growth was particularly robust in the first half of the year. Both domestic demand

and exports supported growth in the subregion. Domestic demand is mainly investment-driven in China, but rapidly rising middle-class incomes are boosting personal consumption expenditure as well, leading to the production of a wide array of consumer goods and a surge in foreign direct investment. In the Republic of Korea, domestic demand is both investment- and consumption-driven, the latter by the more liberal availability of personal credit from the financial system. Exports increased sharply in the first half of 2002 as a result of the upturn in the information and communication technology sector. In the case of China, there was strong growth of imports from within the region, with eight economies increasing their volume of exports to China by around 50 per cent in the first half of 2002. Growth was not as strong in Taiwan Province of China, whose economy remains closely tied to the dynamics of boom and slowdown in the global high-tech industry. Growth was barely perceptible in Hong Kong Special Administrative Region (SAR) of China, which is now primarily a service-oriented economy and has been affected by the slowdown in cross-border financial transactions. Rising unemployment and falling property prices in Hong Kong SAR have shaken consumer confidence and, as in Japan, the economy has suffered the effects of deflation, prices having fallen for four straight years. Deflation also affects China to some extent, and prices in Taiwan Province of China have not risen for three years. Prospects for the subregion in 2003 are that GDP growth rates will be broadly maintained, with a probable easing in the collective growth rate. This is likely to be the case in both China and the Republic of Korea, though with some recovery in China, Hong Kong SAR and Taiwan Province of China.

13. Of the three developed countries of the region, in 2001 and 2002 Japan experienced its third and most severe recession for several years. Australia and New Zealand, however, with buoyant domestic demand, showed relatively strong growth at the upper end of growth within the economies of the member States of the Organisation for Economic Cooperation and Development (OECD). This occurred despite drought in Australia, which reduced agricultural output substantially. Deflation occurred in Japan, while price pressures remained mild in Australia and New Zealand. The consensus is that the Japanese economy appears to have reached its lowest point in 2002 and could see positive growth, albeit at a modest pace in 2003, as measures to speed up reforms in the banking sector begin to take effect. In Australia and New Zealand, strong domestic demand should preserve the current momentum of growth. However, with a deteriorating external environment and the other uncertainties already referred to, risks remain. Those risks are already reflected in lower consumer confidence in the two economies and a slower pace of output growth in the second half of 2002.

II. Policy issues and challenges

14. The greatest threat to the region lies in the danger of a major military conflict in Iraq. In addition, the situation in the Democratic People's Republic of Korea or a major terrorist attack could markedly worsen prospects in the region. Indeed, to some degree the uncertainties thus generated are already manifesting themselves in higher oil prices and weak and volatile financial markets in the region, which are likely to undermine both consumer and business confidence, if prolonged. In a worst-case scenario, a war in Iraq could set in motion its own unpredictable security and sociopolitical dynamics, and Governments would have to respond with policy

adjustments as appropriate. The following paragraphs discuss the policy issues and challenges facing the region on the assumption that there will be no major and/or prolonged military action in Iraq.

15. Given the absence of any evidence of a strong recovery in the global economy, at least in the first half of 2003, sustaining growth in the region will depend primarily upon growth-stimulating domestic policies. Any impetus from higher intraregional trade flows would enhance the effects of such policies.

16. Sustained high momentum of growth is needed, not merely for its own sake, but to address the issues relating to poverty in the region and simultaneously to assist economies in the region in continuing to make progress in tackling corporate and financial sector reform. In this regard, it should be stressed that higher public expenditure on domestic law and order and security, while clearly diverting resources from other uses in the short term, is actually essential for development, owing to its positive impact on levels of confidence in the relevant economies. It is particularly important in economies that have significant tourism sectors.

17. Domestic demand stimulus measures have relied on a mixture of fiscal and monetary policies. With levels of public debt exceeding 50 per cent of GDP in most economies of the region, the question of fiscal consolidation has to be tackled in earnest before too long. In addition, in the case of monetary policy, as a result of falling inflation, interest rates have reached quite low levels so that the scope for further reduction is limited in most countries. Given the varying positions of individual economies of the region in this context, any general policy recommendation would clearly be inappropriate. However, there would appear to be a strong case for Governments to put both fiscal and monetary policies within a medium-term framework in which short-term flexibility can be combined with medium- or longer-term discipline. Countries could begin implementing a programme of refinancing older, higher-cost debt with lower-cost debt, given the lower interest rates currently available. They could anchor it within a credible debt target measured as a ratio to GDP to be achieved, for example, over the next five years, taking into account currency and other risks.

18. With regard to monetary policy and the use of inflation targeting, there is some concern that the authorities may be erring on the side of keeping inflation low and thus sacrificing growth to some extent. The very low rates of inflation or even deflation, rather than high inflation, that are prevalent in a number of economies in the region could potentially be as intractable as high inflation, suggesting a need for more flexible monetary policies. In particular, low inflation caused by a collapse in demand following the bursting of an asset bubble is likely to require policy interventions that are more aggressive than incremental adjustments in interest rates.

19. The programmes of reform of the corporate and financial sectors that have been formulated in several countries over the last five years must continue to be implemented with renewed vigour. Progress in corporate restructuring involving major balance-sheet adjustments in terms of lower debt-to-equity ratios has been slow thus far. That problem is closely related to non-performing loans in banks, which, in turn, are an impediment to the revival of credit demand in many economies of the region. Ideally, both of those problems need to be meaningfully addressed over the next three to five years. Levels of investment in the private sector are still below pre-1997 levels in South-East Asia; without a pickup in private investment, long-term growth is likely to be jeopardized.

20. The reform effort applies equally to improved standards of governance and to more efficient delivery of services in the public sector. Governments in the region need to instil much greater discipline, higher standards of accountability and more effective utilization of the limited resources available to them for the provision of public services. Waste and corruption not only lead to the poorer delivery of services but also lower the morale of providers and users alike and undermine productivity in the economy.

21. By the same token, as emphasized in the past, countries dependent upon official development assistance (ODA) need to redouble their efforts to improve the utilization of external assistance by drawing up realistic projects for such funding and improving their aid management skills. The improved climate for ODA flows may suffer major harm if aid utilization skills do not meet much higher expectations in the future.

22. One of the central challenges of globalization is that countries have to compete for markets. Globalization manifests itself in intensified competition among firms on a transnational basis, necessitating efficiency in the utilization of both capital and human resources. Governments must strive to provide a stable macroeconomic environment, realistic exchange rates and improvements in the physical infrastructure to enable firms to compete, and the firms themselves must promote innovation, improve product and service quality and become more receptive to change.

23. The momentum of trade liberalization, including action in trade facilitation, should be maintained. It is widely accepted that regional trading arrangements can be a useful complement to the multilateral trading system and enhance its effectiveness. Nevertheless, the recent increase in bilateral trade agreements in the region should not reduce the commitment of Governments to promote the multilateral objectives of the Doha Development Agenda adopted at the Fourth Ministerial Conference of the World Trade Organization.

24. The current weaknesses in the global economy and concerns with security issues such as terrorism and the use of the international financial system by terrorists require significantly enhanced cooperation at the regional level in the exchange of information, intelligence and policy-making in the area of security. In previous years the need for vigilance in pre-empting financial crises and containing them has been stressed. Policy coordination to enhance growth is another area deserving attention, and such coordination could be promoted initially through the various subregional organizations in the ESCAP region. An area where this would be particularly appropriate is in developing policy responses to changes in the global balance-of-payments position involving major exchange rate adjustments in the months ahead.

III. The role of public expenditure in the provision of education and health services

25. Generally speaking, the education sector claims the largest share of public expenditure devoted to social services in the developing countries of the region. Out of 32 economies for which data are available, 15 devoted more than 15 per cent of total public expenditure to education in 2000. Most economies in the region were

able to raise the share of public expenditure on education between 1980 and 2000. However, a comparison of the shares of expenditure on health in total public expenditure between 1980 and 2000 presents a mixed picture. Out of 18 economies for which data are available, 10 show an increase and the remainder a decrease.

26. The public sector remains a major provider of education and health services in the developing countries of the ESCAP region. By and large, countries with higher public expenditure on education and health show better outputs and outcomes in this regard. Nevertheless, better results also depend on the more effective and efficient utilization of available resources. Therefore, not only are additional resources needed to expand the provision of education and health services, but measures to enhance their effective utilization and maximize their positive impact, particularly on marginalized groups, are also important.

27. While improving the education and health of people is a desirable end in itself, its positive impact on the overall development of a country can be far-reaching. The provision of education and health services is a key element in any policy to promote broad-based economic growth. The main asset of the poor is their labour, and both education and health services clearly improve labour productivity and the earnings of workers.

28. Education is considered a major remedy for many problems faced by the developing countries. The linkages of health to poverty eradication and long-term economic growth are strong, and education and health are important tools to empower poor people and overcome exclusion based on gender, location and other correlates of poverty. Key policy issues relevant to expanding resources for education and health and improving their effectiveness and efficiency are highlighted below.

Policy issues

29. The public provision of education and health services may be considered using a combination of the rights-based and needs-based approaches. Owing to the limited resources available to Governments in developing countries, the universal provision of education and health services is almost impossible. However, basic education and primary health care command general support under the rights-based approach. As a result, the public provision (free or subsidized) of education and health services can respond to the broad needs of society and, more particularly, to those of marginalized and disadvantaged groups.

30. Huge financial resources are needed for expanding and improving the quality of education and health services in most countries of the region. Such resources can be obtained by shifting them from other sectors with low productivity.

31. Education and health services can be viewed as public goods, and their economic and social benefits extend beyond the persons directly receiving them. The role of the public sector will remain important in the provision of such services. As such, more public resources are needed to expand access to them and improve their quality.

32. The most reliable and sustainable public source is tax revenue. Countries in the region have been reforming their tax systems and many of them have introduced

value added taxes. Improving tax administration and expanding the tax base could generate additional revenue in the future.

33. Generally speaking, education and health services are provided by the public sector either free or at a nominal charge. Modest user charges for an improved quality of service can be introduced to reduce the burden on the public sector. For equity considerations, however, mechanisms need to be devised so that the poor are not barred from using those services for lack of income.

34. The active involvement of the community and non-governmental organizations can augment resources for education and health. Communities can make contributions in kind and/or in cash. Non-governmental organizations have been active in the education and health sectors in a number of developing countries; they can mobilize resources from within and outside a country and can also provide leadership in highlighting the important role of education and health in society.

35. In addition to mobilizing extra resources, the impact of education and health services can be enhanced through more effective and efficient use of public resources. Improving the quality of services, enhancing access to education and health for marginalized groups, prioritization of expenditure within sectors and good governance merit special consideration in this regard.

36. Private sector participation improves quality, raises efficiency and augments the supply of education and health services. This, in turn, allows an enhanced allocation of public resources in rural and remote areas as well as in urban slums, where such services are poorly provided and are most needed. Participation of the private sector should be encouraged and, at the same time, Governments should have in place a proper regulatory regime to maintain standards in education and health services.

37. Governments of many developing countries have borrowed heavily in the past and a major part of their revenue is currently spent on debt servicing, including the servicing of foreign debt. As a way of augmenting resource availability, from the donors' side, rich countries could assist developing countries in the provision of education and health services through debt reduction. At the same time, from the recipients' side, more effective utilization of aid in developing countries could foster a more positive climate of public opinion in the donor countries, with donor Governments becoming more supportive of debt relief and of increased ODA funding in developing countries for education and health.

38. Despite the improved coverage of education and health services in most countries, certain segments of the population have not benefited enough, and access to those services has remained unevenly distributed. Three main groups — people living in rural and remote areas, poor people generally and women — need to be specially targeted to achieve more equitable results in this respect.

39. Additional public resources should be devoted to the provision of education and health services in rural and remote areas. The balanced development of rural areas would also help in managing rural-to-urban migration. Within urban areas, slums and localities of poor people should be targeted for enhanced public spending on education and health.

40. Education and health indicators, as measured by national averages, are not satisfactory in many countries. The situation of the poor is likely to be much worse

in those countries, since the poor tend to have limited access to education and health services, which in turn keeps them poor, continuing the vicious cycle of poverty. Therefore, the children of the poor should be given special incentives through scholarships, free textbooks and uniforms to improve their access to education.

41. Gender inequalities remain serious in many countries. Certain affirmative measures can help in enhancing girls' and women's access to education. Particularly in rural areas, parents need to be made aware of the importance of girls' education through publicity campaigns. As with the children of the poor, scholarship schemes, free textbooks and other supplies for girls could be used to encourage them to attend school. Enhancing the representation of women in management positions in the education and health sectors could help to promote the concerns and needs of women more effectively.

42. Even with a fixed measure of resources, improved outcomes can be achieved through the reprioritization of expenditure within the education and health sectors according to needs and importance. Developing countries need quality education at all levels, including tertiary education, to absorb new technologies. Information and communication technology needs to be promoted in education at all levels. However, for countries with low enrolment ratios, higher priority should be given to achieving universal primary education, followed by improvements in secondary and higher education.

43. Within the health sector, greater emphasis tends to be given to curative rather than preventive services. However, preventive measures to improve health, such as access to safe drinking water, adequate sanitation and mass vaccination against communicable diseases are also very important. They can reduce the need for curative services. The priority in public health expenditure should be to provide primary health care to all, particularly in rural and remote areas and for disadvantaged groups.

44. In many countries, the education and health sectors are under enormous stress due to population pressure. One of the most important health interventions is greater attention to reproductive health, not only to control the spread of sexually transmitted diseases such as the human immunodeficiency virus and acquired immunodeficiency syndrome (HIV/AIDS), but also to limit fertility through the provision of family planning services, including access to contraception.

45. By improving governance, significant resources can be saved and utilized for improving access to, and the quality of, education and health services. More effective implementation of checks and balances and greater decentralization in the provision of education and health services can help in controlling waste and loss of resources.

46. While better education and health outcomes contribute to economic growth, the reverse is also true. Financial resources for education and health can be made available more easily in a growing economy. Therefore, policies aimed at broad-based growth should be vigorously pursued.

IV. Environment-poverty nexus revisited: linkages and policy options

47. The tension between growth and environmental objectives can be resolved by designing and implementing environmental policies that have a beneficial impact on the poor and through poverty reduction policies and programmes that contribute to the improvement of the environment. The present chapter provides an overview of selected policies and programmes that have been implemented in this area in the Asia-Pacific region and analyses them to find ways to increase their effectiveness.

48. The eradication of poverty is a major development challenge. Rapid economic growth is often seen as a key element in achieving poverty reduction. However, experience shows that rapid economic growth is often accompanied by environmental deterioration that adversely affects the poor.

49. Environmental deterioration, such as depletion of natural resources, raises atmospheric pollution, reduces biodiversity, dries aquifers, pollutes aquatic and marine ecosystems and increases the production of waste matter, which has adversely affected the poor because of their locational disadvantages, higher dependency on environmental resources and insufficient assets for coping with environmental hazards.

50. Despite the existence and use of a large number of policies and programmes, their track record in improving the state of the environment in the region is not satisfactory. The reasons for the limited success of environmental policies are embedded in the prevailing economic concepts relevant to the environment, which make the associated policies difficult to implement. The relatively intangible nature of environmental costs, the negative externalities associated with such costs and the free-rider problem are reasons for market failure and effectively restrict the role of public policy in this area.

51. For many developing countries, enhancement of economic growth is often the major macro-objective of economic development. It is assumed that sustainable poverty reduction will take place through the trickle-down effect of economic growth. Based on this premise, an effort is made to sustain the tempo of economic growth, and policies and programmes are formulated to mitigate the adverse environmental impact of economic growth and reverse environmental degradation. Given the background of possible positive linkages between the livelihoods, income and health of the poor, and the environment, such actions would strengthen the trickle-down effect of economic growth and lead to a reduction in poverty. Experience shows, however, that the linkages are more complex and require well-designed policy interventions.

52. To begin with, it is necessary to secure stakeholders ownership through vigorous awareness-building campaigns. Decentralizing the responsibility for designing and implementing environmental policies and programmes, improving coordination between agents, policy makers and institutions, and establishing and maintaining good standards of governance are other critical requirements. Their combined impact on poverty is a further element. The relevant policies and programmes are explained below.

Policy options

53. Environmental policies can be classified into two broad groups: (a) those that aim at reducing the adverse environmental impact of economic growth, ultimately leading to an improvement of the environment in general and consequently having a beneficial impact on the poor, and (b) those that are specifically targeted at the poor and simultaneously have a positive impact on the environment.

54. Within the first group, sustainable development plans and policies aim to minimize the adverse environmental impact of economic growth by promoting conservation measures, reducing pollution and using clean production technologies. The objectives of the plans and policies are to ensure that economic growth and development take place with minimal damage to the environment.

55. At the same time, sectoral plans and policies have been developed to address concerns regarding agricultural land and water. Multisectoral and multidisciplinary action plans are being implemented to rehabilitate degraded water quality and ensure the provision of a safe drinking water supply in many countries of the region.

56. Command and control systems utilize the power of the State to force consumers and producers to adhere to environmental norms and good practices. A number of countries have used licences and quotas to control deforestation and regulate effluents, emissions and disposable wastes.

57. Market-based fiscal incentive-disincentive systems influence the behaviour of producers and consumers by providing them with a choice as to the extent and nature of responses for reducing environmental damage. They are the easiest to administer, and they also lead to revenue generation. Major market-based instruments that have been used in the countries of the region include environmental taxes, user charges, targeted subsidies and deposit return systems.

58. Functioning institutions and horizontal and vertical linkages between them are crucial for formulating and implementing effective environmental plans and policies. Although there is room for improvement in the mechanisms for coordination, modalities for horizontal coordination on environmental matters already exist in many countries in the Asia-Pacific region.

59. To strengthen vertical coordination, provincial-level environmental agencies have been set up in many countries, and local Governments have been given the responsibility of formulating and implementing local environmental protection plans.

60. Among policies directed at reducing poverty and improving the environment, the provision of property rights to such resources as land, water and trees has played an important role in poverty eradication by simultaneously providing a motivation for resource conservation in rural areas. Social forestry is a very effective modality for poverty eradication and improvement of the environment, and a large number of countries in the region have adopted this policy to improve the environment and simultaneously provide a means of livelihood to the rural poor.

61. Implementation of anti-corruption measures and disaster management plans and policies are associated with strong beneficial impacts on the poor. Corrupt practices can be reduced by providing quality information on the state of natural resources. Effective publicity relating to corrupt practices, anti-corruption laws, the

existence of environmental protection agencies and laws and the punishment of violators of laws can reduce unsustainable management of natural resources, especially forestry resources.

62. Natural calamities, such as cyclones, typhoons, floods and mud slides, tend to occur fairly regularly and affect many countries in the region. They can best be managed through the formulation of disaster management plans. The elements of such plans include improved forecasting, the setting-up of early warning systems and the maintenance of uninterrupted communication between potential disaster-prone communities or areas and Governments. Wide publicity concerning warnings of any impending calamity and various types of disaster preparedness and relief measures, such as making essential goods and services available at reasonable prices (or for free) in disaster-struck areas, and ensuring the timely availability of medicines and medical assistance following a natural calamity, are other elements of disaster management plans.